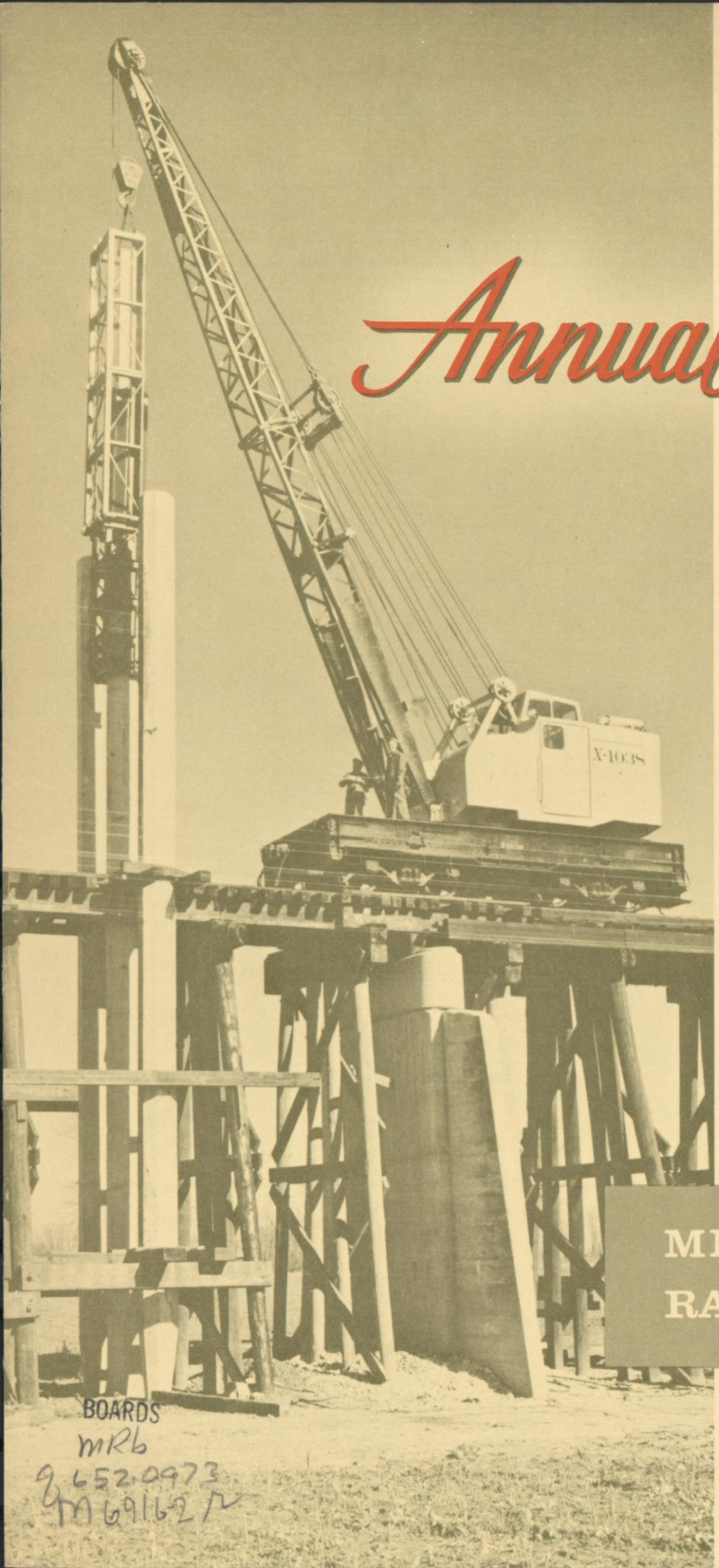


1961 Annual Report

MISSOURI PACIFIC RAILROAD COMPANY

BOARDS
MRL
9 652.0973
M6916 2

Annual Report

For Year Ended December 31, 1961

The data in this annual report includes the Missouri Pacific Railroad Company and its majority-owned subsidiary companies. The principal subsidiary companies included in the consolidation are:

	Percent Owned
The Texas and Pacific Railway Company	80.2
American Refrigerator Transit Company	71.0
Missouri-Illinois Railroad Company	54.4

In addition, the consolidation includes the following companies:

Wholly-Owned

Doniphan, Kensett & Searcy Railway

The Iron Mountain Railroad Company of Memphis

Missouri Pacific Freight Transport Company

Missouri Improvement Company

Natchez & Southern Railway Company

New Orleans & Lower Coast Railroad Company

St. Joseph Belt Railway Company

Southern Exploration Company

Union Railway Company

Union Terminal Railway Company

Western Coal and Mining Company

Western Townsite Company

Majority-Owned

Southern Illinois and Missouri Bridge Company (60%)

Wholly-Owned by Missouri Pacific Railroad Company and Texas and Pacific Railway Company

Fort Worth Belt Railway

Texas Pacific-Missouri Pacific Terminal Railroad of New Orleans

Wholly-Owned Subsidiaries of the Texas and Pacific Railway Company

Abilene & Southern Railway

Denison & Pacific Suburban Railway

Eagle Ford Land & Industrial Company

Merchants Cold Storage Company

Texas-New Mexico Railway

Texas and Pacific Motor Transport Company

Texas Short Line Railway

Weatherford, Mineral Wells and Northwestern Railway

The Cover Picture

Typical of the railroad's trend to acquire the most modern and efficient work equipment was the placing in service late in 1961 of a new diesel-electric crane, and along with it, a diesel powered pile-driving hammer. The equipment was photographed in action on a trestle-modernization job near Parkin, Ark. Pre-cast concrete piles 55 feet long, were being driven in groups of three to replace the wooden supports for this approach to a bridge over the St. Francis river.

Consolidated
Financial and Operating Highlights

	1961	1960
Income and Expense Items		
Operating Revenues	**$378,178,000**	$389,669,000
Operating Expenses	**291,348,000**	307,408,000
Operating Ratio (Rail Line)	**77.0%**	78.6%
Taxes		
Federal Income Taxes	**10,274,000**	5,028,000
Other	**26,725,000**	28,779,000
Income Available for Fixed Charges	**53,975,000**	48,667,000
Times Fixed Interest Earned	**2.9**	2.7
Net Income before Federal Income Taxes but after Minority Interests	**22,853,000**	18,048,000
Net Income	**12,579,000**	13,020,000
Per Share — Class A Stock (*)	**6.72**	6.96
Dividends Declared per Share — Class A Stock	**2.40**	2.40
Financial Position		
Gross Capital Expenditures	**$ 21,344,000**	$ 53,071,000
Depreciation Charged to Income	**27,415,000**	26,336,000
Working Capital	**52,776,000**	56,224,000
Long Term Debt, including amount due within one year	**650,334,000**	679,977,000
Freight and Passenger Figures		
Average Miles of Railroad Operated	**11,396**	11,447
Revenue Ton Miles (1,000's)	**23,788,106**	23,599,492
Revenue per Ton Mile (cents)	**1.32**	1.38
Revenue Passenger Miles (1,000's)	**558,478**	609,480
Revenue per Passenger Mile (cents)	**2.59**	2.53
Employees		
Total Amount of Payroll	**$178,201,000**	$193,648,000
Average Annual Wages	**6,490**	6,194
Average Number of Employees	**27,458**	31,263

*See page 10 for description and limitation of Class A Stock.

A supplemental report with other financial and statistical information may be obtained from the Office of the Secretary, Missouri Pacific Railroad Co., Room 2206 Missouri Pacific Bldg., St. Louis 3, Mo.

APR 3 1962 A

MISSOURI PACIFIC RAILROAD COMPANY

BOARD OF DIRECTORS

WILLIAM B. BATES
Partner in the law firm of Fulbright, Crooker, Freeman, Bates & Jaworski
Houston, Texas

E. M. BLACK
Chairman of the Board and President American Seal-Kap Corporation of Delaware
New York, New York

GLENN W. CLARK (1)
President, Mississippi River Fuel Corp.
St. Louis, Missouri

ROBERT H. CRAFT
President and Director Paribas Corporation
New York, New York

T. C. DAVIS
New York, New York

RUSSELL L. DEARMONT*
Chairman of the Board of Directors Missouri Pacific Railroad Company
St. Louis, Missouri

HERBERT GUSSMAN
Independent Oil Producer
Tulsa, Oklahoma

ROSCOE C. HOBBS
Vice President Hobbs Western Company
St. Louis, Missouri

D. B. JENKS
President Missouri Pacific Railroad Company
St. Louis, Missouri

JAMES LEE JOHNSON
Vice President and Director International Shoe Company
St. Louis, Missouri

JAMES M. KEMPER
Chairman of the Board Commerce Trust Company
Kansas City, Missouri

WILLIAM G. MARBURY
Chairman of the Board and Chief Executive Officer Mississippi River Fuel Corporation
St. Louis, Missouri

HARRY B. MATHEWS, JR.
Chairman of the Board of Directors Mississippi Lime Company
Alton, Illinois

J. T. SUGGS (2)
President Texas & Pacific Railway Company
Dallas, Texas

RAYMOND V. TERRY
Vice President and Director Mississippi River Fuel Corporation
New Orleans, Louisiana

(1) *Effective May 9, 1961*
(2) *Effective May 15, 1961*

EXECUTIVE COMMITTEE

WILLIAM G. MARBURY, *Chairman*
RUSSELL L. DEARMONT
T. C. DAVIS
D. B. JENKS
JAMES M. KEMPER
HARRY B. MATHEWS, JR.
RAYMOND V. TERRY

OFFICERS

RUSSELL L. DEARMONT* — *Chairman of the Board*
D. B. JENKS — *President*
H. M. JOHNSON** — *Executive Vice President*
C. D. PEET — *Vice President-Finance*
J. H. LLOYD — *Vice President-Operation*
F. J. CONRAD — *Vice President-Traffic*
H. M. HOFFMEISTER — *Vice President — Purchases & Stores*
H. L. SCHAEFFER — *Vice President (Houston)*
C. J. MAURER*** — *Controller*
M. M. HENNELLY*** — *General Counsel*
L. A. BRUNS — *Treasurer*
C. A. ROCKWELL — *Secretary*

* *Resigned, effective February 22, 1962. Succeeded by J. T. Suggs*
** *Retiring April 1, 1962*
*** *Effective February 1, 1962*

TRANSFER AGENTS

UNITED STATES TRUST COMPANY OF NEW YORK, Transfer Agent
Class A and B Stock, 45 Wall Street ..... New York 5, N. Y.

THE BOATMEN'S NATIONAL BANK OF ST. LOUIS, St. Louis Transfer Agent
Class A Stock, 300 No. Broadway ..... St. Louis 2, Mo.

REGISTRARS

MANUFACTURERS HANOVER TRUST COMPANY, Registrar
Class A and B Stock, 55 Broad Street ..... New York 15, N. Y.

ST. LOUIS UNION TRUST COMPANY, St. Louis Registrar
Class A Stock, 510 Locust Street ..... St. Louis 2, Mo.

EXCHANGE AGENT

MANUFACTURERS HANOVER TRUST COMPANY, Exchange Agent
70 Broadway ..... New York 15, N. Y.

ANNUAL MEETING OF STOCKHOLDERS: The Second Tuesday in May.
GENERAL OFFICES: Missouri Pacific Building, St. Louis 3, Missouri

TO THE STOCKHOLDERS:

Consolidated earnings in 1961 amounted to $12.6 million or $6.72 per Class A share. This compares with $13.0 million or $6.96 per Class A share in 1960. Dividends of $2.40 per Class A share were paid during 1961 and 1960.

Net income before Federal income taxes increased $4.6 million or 24% over 1960 despite an $11.5 million or 2.9% decrease in revenues. Federal income taxes increased $5.2 million, primarily as a result of increased taxable income and exhaustion of tax credits on the amortization of defense facilities.

More efficient operating practices put into effect during the year made it possible to offset a substantial portion of the unfavorable factors encountered in 1961. As contrasted with the decrease of $11.5 million in operating revenues, operating expenses were reduced by $16 million.

TRAFFIC AND REVENUES

Freight revenues by major commodity groups are contained in the following table:

	(Thousands)	
	1961	1960
Products of Agriculture	**$ 58,215**	$ 61,382
Animals and Products	**6,203**	6,719
Products of Mines	**43,147**	44,698
Products of Forests	**18,352**	19,990
Manufactures and Miscellaneous	**174,836**	177,686
Forwarder Traffic	**5,667**	6,237
Total Carload Traffic	**$306,420**	$316,712
L.C.L. Traffic and Trucking Revenues	**16,376**	17,146
	$322,796	$333,858

This decline in freight revenues reflects the general decline in industrial activity in our area and the effect of Hurricane Carla in September. In recent months there has been some improvement in industrial activity in the area.

During the year, a new freight service, providing second evening arrival, was established between St. Louis and Los Angeles. This service is provided by co-operation with the Southern Pacific, which connects with our system at El Paso. The number of "Red Ball" through freight trains has been increased during the year and their schedules have been improved.

The trucking subsidiaries, Missouri Pacific Freight Transport Company and Texas & Pacific Motor Transport Company, are aggressively promoting all forms of piggy-back service. Except for automobiles, which are now handled more economically on multi-level rail cars, joint truck-rail traffic is steadily increasing. Inter-change has been established with more than 200 motor carriers, providing joint service east of the Rockies.

Our railroad has taken an aggressive attitude in revising its pricing to enable more effective competition with other modes of transportation. Volume lot rates, "step rates," revised rates on movements by jumbo tank cars, incentive or discount rates and greater rate flexibility are being encouraged. Approval of a new rate division formula that would allocate a greater proportion of transcontinental revenues to midwestern and eastern railroads is still pending before the Interstate Commerce Commission after six years.

In 1961, the company modernized its sales organization through the establishment of 11 regions throughout the United States, each under the direction of a

regional sales manager, thus providing more direct supervision of our sales forces for more effective service to our customers.

During the year, 208 new industries located in the territory served by the system, and an additional 170 of those presently served, expanded their capacity. The estimated potential traffic resulting from this industrial expansion is 60,000 cars annually.

Revenues from passenger train service, including mail and express, were about the same as in 1960. However, passenger train miles were reduced about 7%. The company received authority to end commuter service and several passenger trains were discontinued or consolidated during 1961. A long range program to rehabilitate freight and passenger equipment has been established.

OPERATIONS

We spent $21.3 million on improvements to the physical plant of the railroad.

The new electronic classification yard at North Little Rock is completed. This facility will improve service to shippers and provide economies in operations.

Numerous improvements were made in the company's communication system. Over 37 miles of new rail and 56 miles of relay rail were laid in 1961, and 2,400 miles of track were surfaced.

A program to improve the condition of present equipment was inaugurated. Major repair facilities are being operated on a year round basis. The bad order percent of freight cars was reduced to 4.9% at the end of the year as compared with 8% at the beginning of the year.

New equipment purchased during 1961 includes 1145 new roller bearing freight cars and 146 multi-level auto racks. The 1962 equipment program includes 700 new box cars, 300 of which are insulated, 125 flat cars, 25 Air Slide hopper cars, 150 mechanical refrigerator cars, 91 multi-level racks for handling automobiles and 50 mail storage cars. Orders have been placed for 100 general purpose 1800 HP diesel units and 150 low capacity units will be retired. These programs will not only improve the company's service but the new modern equipment will make possible more economical operations in the future.

Operating performance was improved in 1961. Total operating expenses were reduced to 77.0% of operating revenues from 78.6% in 1960. Gross ton miles per freight train mile increased to 3,485 from 3,348 in 1960.

Total payrolls decreased approximately 8% from $193.6 million in 1960 to $178.2 million in 1961. Total payroll costs represented 50.3% of total operating revenues as compared with 52.5% in 1960.

National negotiations between the railroads and non-operating unions started in January, 1962. The effect of these negotiations on operations cannot be estimated at this time. The negotiations will deal with both the carrier proposals and the union demands.

The cost of labor and employe welfare benefits continues to absorb a substantial part of our revenue dollar. Obsolete work rules of the operating employes of the American railroads are a severe handicap to economical operation. A 15-member Presidential Commission, composed equally of representatives from management, labor and the public, has been studying this question for the past year and its findings have recently been announced. While the recommendations will not be binding, it is hoped that the resulting negotiations between labor and management within the framework of their findings will be conducted on a statesmanlike basis.

LEGISLATION AND TAXATION

No major legislation was passed during 1961 to end the many restrictions and abuses which prevent railroads from diversifying and competing on an equal basis with other modes of transportation.

Freedom to diversify should be permitted in the transportation industry. Diversification is in the public interest since it would encourage use of the most economical means of moving freight for our customers. Since our heavy taxes go to support highways, waterways and airline facilities, we should be privileged to use them. Diversification of products and services is increasing in our industries to reduce dependence on one market and produce greater financial stability.

Regulatory exemptions now allowed the trucking industry on agricultural goods, and barge lines hauling commodities in bulk, should be extended to the railroads or the exemptions for trucks and barge lines should be repealed. Rate regulation by the Commission was originally intended to protect the public from excessive rates. However, today it is used to protect competitors.

The 10% tax on passenger travel, imposed as a means of reducing travel during war time, has still not been repealed despite rising deficits encountered by the industry on passenger operations. In January, 1962, the President recommended to Congress that this tax on rail passenger travel be permitted to expire June 30, 1962. In many instances, discriminatory state and local taxes continue to be assessed against the railroads.

Efforts are being made to obtain higher depreciation rates on new investment in facilities. This would help promote use of modern facilities and equipment, which will reduce costs on a long range basis.

FINANCIAL AND CORPORATE

Consolidated long term debt was reduced by $29.6 million in 1961. There was a reduction of $17.1 million on the Missouri Pacific Railroad Company and $10.8 million on the Texas & Pacific.

All remaining Collateral Trust Notes issued by Missouri Pacific, which were outstanding in principal amount of $10.9 million at December 31, 1960, were retired in 1961. The retirement of these notes not only reduced interest requirements but results in a decrease of $1.9 million in mandatory appropriations of income for sinking funds.

During the year the Texas & Pacific paid off a total of $8 million on a $20 million bank loan which was outstanding on December 31, 1960, and the balance of the note was reissued, extending the maturity to 1964 at a reduction in the interest rate.

A strong financial position is being maintained. Cash and temporary cash investments totaled $77.9 million at the year end. This compares with $69.5 million at December 31, 1960.

In the 1956 Consummation Order approving reorganization of the Company, it was provided that on March 1, 1962 the rights of security holders to receive new securities in the reorganized company would terminate. These securities will be cancelled on March 1, 1962 and the security holders who have not exchanged their old securities will have only the right to receive cash payments equivalent to the market value of such securities on that date, plus interest or dividends payable to that date.

CHICAGO & EASTERN ILLINOIS RAILROAD

The company acquired 97,704 shares of C&EI's outstanding stock and $970,000 of Convertible General Mortgage bonds. An application for authority to obtain control of the C&EI has been filed with the Interstate Commerce Commission.

The properties and operation of the company and C&EI are well adapted for unification. Missouri Pacific's direct connections with the C&EI at Thebes, Ill. and St. Louis, provide a natural extension of our system from the West and Southwest to Chicago. The two lines are almost wholly non-competitive and together form an important link between the West-Southwest on the one hand and the Northern Midwest on the other.

Control of the C&EI is also being sought by the Illinois Central Railroad, and the Louisville & Nashville Railroad is seeking as a part of and condition to these control proceedings, to acquire by purchase, or trackage rights, the line of the C&EI from Evansville, Indiana to Chicago. Hearings before an Interstate Commerce Commission Examiner are scheduled in March, 1962.

A map illustrating the coordinated Missouri Pacific-C&EI system is shown on inside back cover.

* * *

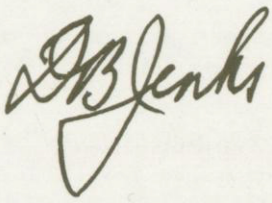
There were two changes in the membership of the Board of Directors in 1961. Vacancies created by the resignation of G. S. Wortham and A. Watner were filled by G. W. Clark, President of Mississippi River Fuel Corporation, and J. T. Suggs, President of the Texas & Pacific Railway Company.

On February 22, 1962, Mr. Dearmont resigned as Chairman of the Board but shall continue serving the company as a director. Mr. Suggs was elected Chairman of the Board to succeed Mr. Dearmont.

The retirement age for Missouri Pacific officers was reduced from 70 to 65 years under a new plan, effective January 1, 1961. As a result, younger men of proven ability could be and were appointed to many executive positions, and I feel a special tribute should be paid to the aggressive manner in which this new management team cooperated in improving our over-all operations. Through their efforts we are providing better transportation service to the public. At the same time the work in all departments is being performed more effectively and at lower costs.

I should like to express my appreciation for the continued cooperation and loyalty of our officers and employees.

Sincerely,



President

St. Louis, Mo.
March 13, 1962

MISSOURI PACIFIC RAILROAD COMPANY
and
SUBSIDIARY COMPANIES

Consolidated Income

	Year 1961	Year 1960
OPERATING REVENUES:		
Freight	$322,796,000	$333,858,000
Passenger, Mail and Express	35,355,000	35,653,000
Switching and Other	20,027,000	20,158,000
Total Operating Revenues	378,178,000	389,669,000
OPERATING EXPENSES:		
Maintenance of Way and Structures	42,368,000	48,922,000
Maintenance of Equipment	70,155,000	73,589,000
Traffic	10,863,000	11,904,000
Transportation	150,332,000	154,851,000
General	17,630,000	18,142,000
Total Operating Expenses (Includes Depreciation of $27,069,000 and $25,962,000, respectively)	291,348,000	307,408,000
Net Revenue from Operations	86,830,000	82,261,000
OTHER OPERATING CHARGES:		
Taxes (Except Federal Income Taxes)	26,725,000	28,779,000
Equipment and Joint Facility Rents	10,836,000	9,436,000
Total Other Operating Charges	37,561,000	38,215,000
NET OPERATING INCOME (Before Federal Income Taxes)	49,269,000	44,046,000
OTHER INCOME (Net)	4,706,000	4,621,000
INCOME AVAILABLE FOR FIXED CHARGES (Before Federal Income Taxes)	53,975,000	48,667,000
FIXED AND OTHER CHARGES:		
Fixed Interest	18,796,000	17,918,000
Other Fixed Charges	252,000	227,000
Contingent Interest	10,851,000	11,084,000
Total Fixed and Other Charges	29,899,000	29,229,000
NET INCOME BEFORE FEDERAL INCOME TAXES	24,076,000	19,438,000
FEDERAL INCOME TAXES (Notes 1 and 3)	10,274,000	5,028,000
	13,802,000	14,410,000
Less—Net Income Applicable to Minority Interests	1,223,000	1,390,000
NET INCOME	$ 12,579,000	$ 13,020,000

See Notes to Financial Statements, Page 10.

MISSOURI PACIFIC RAILROAD COMPANY
and
SUBSIDIARY COMPANIES

Consolidated Balance Sheet

ASSETS	Dec. 31, 1961	Dec. 31, 1960
CURRENT ASSETS:		
Cash	$ 20,175,000	$ 21,781,000
Temporary Cash Investments, at cost	57,703,000	47,756,000
Deposits for Interest, Dividends and Redemptions	14,565,000	10,773,000
Accounts Receivable	26,943,000	25,998,000
Material and Supplies	15,529,000	20,716,000
Other Current Assets	2,024,000	2,239,000
	136,939,000	129,263,000
PROPERTIES: (Note 2)		
Road	814,119,000	817,722,000
Equipment	545,079,000	560,808,000
Miscellaneous	33,210,000	30,902,000
	1,392,408,000	1,409,432,000
Accumulated Depreciation		
Road	Cr. 83,698,000	Cr. 81,618,000
Equipment	Cr. 246,660,000	Cr. 245,366,000
Miscellaneous	Cr. 8,072,000	Cr. 7,613,000
Excess of Net Assets (at acquisition) of Consolidated Subsidiaries over carrying value of investments	Cr. 59,108,000	Cr. 58,881,000
	994,870,000	1,015,954,000
OTHER ASSETS AND DEFERRED CHARGES:		
Investments in Terminal and Other Companies	15,834,000	13,863,000
Capital, Insurance and Other Funds	2,392,000	1,908,000
Other	7,916,000	5,230,000
	26,142,000	21,001,000
	$1,157,951,000	$1,166,218,000

MISSOURI PACIFIC RAILROAD COMPANY
and
SUBSIDIARY COMPANIES

Consolidated Balance Sheet

LIABILITIES	Dec. 31, 1961	Dec. 31, 1960
CURRENT LIABILITIES: (Exclusive of Long Term Debt Due Within One Year)		
Accounts and Wages Payable	$ 36,939,000	$ 36,224,000
Interest and Dividends Payable	9,205,000	9,760,000
Unmatured Interest Accrued	12,090,000	12,577,000
Federal Income Taxes Accrued (Notes 1 and 3)	9,822,000	3,260,000
Other Taxes Accrued	6,922,000	6,991,000
Other Current Liabilities	9,185,000	4,227,000
	84,163,000	73,039,000
LONG TERM DEBT—DUE WITHIN ONE YEAR (Equipment Obligations)	13,829,000	14,477,000
LONG TERM DEBT (Notes 4 and 5) (Page 12)	636,505,000	665,500,000
OTHER LIABILITIES AND DEFERRED CREDITS	5,883,000	5,647,000
EQUITY OF MINORITY SHAREHOLDERS IN CONSOLIDATED SUBSIDIARIES	48,972,000	48,716,000
SHAREHOLDERS' EQUITY: (Notes 4 and 5)		
Capital Stock—No Par Value		
Class A—(Authorized 3,000,000 shares, outstanding 1,871,781 and 1,871,957 shares, respectively)	187,178,000	187,196,000
Class B—(Authorized 1,000,000 shares, outstanding 40,587 and 40,648 shares, respectively)	4,059,000	4,065,000
Retained Income (Includes subsidiaries from dates of acquisition and parent company since Jan. 1, 1955 reorganization (Page 10).	177,362,000	167,578,000
	368,599,000	358,839,000
	$1,157,951,000	$1,166,218,000

CONTINGENT LIABILITIES:
Guarantees of principal and interest with other railroads of obligations of various affiliated companies and of a service interruption policy.

See Notes to Financial Statements, Page 10.

MISSOURI PACIFIC RAILROAD COMPANY
and
SUBSIDIARY COMPANIES

Consolidated Retained Income

	Year 1961	Year 1960
Balance at beginning of year	$167,578,000	$158,050,000
Add—Net Income for the year	12,579,000	13,020,000
Gain on reacquisition of bonds less miscellaneous	1,698,000	127,000
Profit on sale of Investment Securities less Federal Income Taxes		1,182,000
Restatement of property and depreciation of Western Coal and Mining Company		410,000
	181,855,000	172,789,000
Deduct—Dividends on Missouri Pacific Railroad Company's Class A Stock—$2.40 per share	4,493,000	4,493,000
Prior years' adjustment of joint facilities depreciation		718,000
Balance at end of year (Including $43,097,000 and $40,153,000 respectively, appropriated by the Board of Directors) (Note 4)	$177,362,000	$167,578,000

Notes to Financial Statements

Note 1. — Amortization and Accelerated Depreciation:

Interstate Commerce Commission accounting regulations require railroads to record in their accounts normal depreciation regardless of the amount of amortization under certificates of necessity or accelerated depreciation claimed for federal income tax purposes. This resulted in a reduction of federal income taxes in 1961 and 1960 of $500,000 and $2,075,000, respectively. Such cumulative reduction to December 31, 1961 is approximately $52,000,000.

These tax benefits may be temporary since depreciation subsequently recorded in the accounts will not be deductible for federal income tax purposes. Interstate Commerce Commission regulations do not permit the recording in the accounts of a provision for the possible effect on income taxes in future years as is commonly done under generally accepted accounting principles.

Note 2. — Properties:

Parent company properties are stated at estimated original cost as determined by the Interstate Commerce Commission valuation as of January 1, 1955 (date of reorganization), plus additions and betterments at cost and less retirements since that date. The principal subsidiary properties are also recorded under the system of accounting prescribed by the Interstate Commerce Commission; however, unlike the parent company there has not been a revaluation to estimated original cost.

Depreciation on road property, other than rail, ties, ballast, etc., has been provided at prescribed rates since January 1, 1943. At the time of its reorganization the parent company recorded the estimated accumulated depreciation applicable to depreciable property for the period prior to January 1, 1943. A similar recording was not made for subsidiary companies; however, reference is made to the "Excess of net assets (at acquisition) of consolidated subsidiaries over carrying value of investments" which is deducted from properties.

Railroads follow an acceptable alternate accounting practice of "replacement" accounting for rail, ties, and other track materials instead of the usual depreciation accounting. Under this method, replacements in kind are charged to expenses and only improvements and additions are capitalized. The amounts capitalized are not depreciated.

At December 31, 1961 consolidated non-depreciable property, including land and land rights, was approximately $543,000,000.

Note 3. — Federal Income Taxes:

There are other differences, in addition to those set forth in Note 1, in reporting income for Interstate Commerce Commission and federal income tax purposes. Principal differences are property bases, rates of depreciation, and claim reserve accounting.

Decision is expected by the fall of 1962 in respect of a claim for refund of income tax involving the deduction of interest for the period January 1, 1955 to March 1, 1956. No amount with respect to the claim is recorded in the accounts.

Note 4. — Long Term Debt and Dividends:

The provisions of the mortgages and indentures relative to priority of call in each year upon "Available Net Income" (as defined therein) have been satisfied and no restriction on the parent company's retained income at December 31, 1961 exists.

Class A dividends are non-cumulative and may not exceed $5 per share in any calendar year. No Class B dividends shall be declared or paid unless during that year dividends of $5 per share have been paid or declared on the Class A stock.

Note 5. — Stock Options and Exchange of Securities:

A restricted Stock Option Plan reserving 100,000 shares of Class A stock was approved by the stockholders on May 9, 1961. In September, 1961 options were granted to certain key personnel to purchase 30,000 shares at the then current market price of $44.875 per share. The options are not exercisable until two years after date of grant.

In regard to termination of right to exchange old securities, page 5, there were as of December 31, 1961 $2,600,000 principal amount of debt securities, and 35,000 shares of Class A and 1,000 shares of Class B stock, which had not been exchanged for old securities in accordance with the plan of reorganization.

Note 6. — Pension Plan:

Under a noncontributory "pay as you go" pension plan for executives, officials, and staff assistants, charges to operating expenses in 1961 and 1960 were approximately $615,000 and $396,000, respectively. Pension costs in future years are expected to increase as additional employees become eligible for retirement.

ACCOUNTANTS' OPINION

PRICE WATERHOUSE & CO.

14 SOUTH FOURTH STREET
ST. LOUIS 2
March 9, 1962

To the Stockholders and Board of Directors of
MISSOURI PACIFIC RAILROAD COMPANY:

We have examined the accompanying consolidated balance sheet of the Missouri Pacific Railroad Company and its subsidiaries at December 31, 1961 and the related statements of income and retained income for the year. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company is required to maintain its accounts in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission, which principles and methods differ from generally accepted accounting principles as set forth in Note 1.

In our opinion, with the exception referred to in the preceding paragraph, the accompanying statements present fairly the consolidated financial position of the Missouri Pacific Railroad Company and its subsidiary companies at December 31, 1961 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

SOURCE AND USE OF FUNDS

Source of Funds:	
Operations—	
Net income for year	$ 13,802,000
Depreciation and retirements (charges against income not requiring disbursement of funds)	27,860,000
Proceeds or salvage from property sold or retired	11,372,000
Decrease in working capital	3,448,000
	56,482,000
Use of Funds:	
Property additions	21,344,000
Less—Equipment Obligations issued	9,210,000
	12,134,000
Net purchases of Chicago & Eastern Illinois Railroad securities	1,950,000
Repayment of bank loan and equipment obligations	22,546,000
Cost of company bonds reacquired	14,045,000
Dividends (including amounts paid minority interests)	5,200,000
Other — Net (Other Investments, etc.)	607,000
	$ 56,482,000

LONG TERM DEBT

(Including Maturities in 1962)

	Interest Rate	Date of Maturity	Changes 1961 Issued	Changes 1961 Reacquired	Outstanding December 31, 1961 (excluding amounts held by Company)
Missouri Pacific Railroad Company					
Collateral Trust Notes	4¼%	3-1-1976		$10,930,000	
First Mortgage Bonds (1)					
Series B	4¼%	1-1-1990		8,000	$127,220,000
Series C	4¼%	1-1-2005		9,000	129,398,000
General Mortgage Bonds (1)					
Series A	4¾% (2)	1-1-2020		2,272,000	62,741,000
Series B	4¾% (2)	1-1-2030		2,652,000	59,857,000
Income Debentures	5% (2)	1-1-2045		7,000	100,539,000
Equipment Obligations	2.375% to 5.70%	1962 to 1976	$ 9,210,000	10,382,000	91,536,000
Total Missouri Pacific Railroad Company			9,210,000	26,260,000	571,291,000
Texas and Pacific Railway Company					
First Mortgage Bonds	5%	6-1-2000			18,961,000
Second Mortgage Bonds	5%	12-1-2000		2,000	80,000
General & Refunding Mortgage Bonds Series E (1)	3⅞%	7-1-1985			25,165,000
Bank Note	5%	9-30-1963		20,000,000	
Bank Note	4½%	9-30-1964	15,000,000	3,000,000	12,000,000
Equipment Obligations	2% to 4½%	1962 to 1975		2,814,000	9,287,000
Total Texas and Pacific Railway Company			15,000,000	25,816,000	65,493,000
American Refrigerator Transit Company					
Equipment Obligations	3% to 5¼%	1962 to 1975		1,254,000	9,959,000
Other Companies					
First Mortgage Bonds				408,000	2,403,000
Equipment Obligations				96,000	192,000
Advances				19,000	996,000
Total Other Companies				523,000	3,591,000
GRAND TOTAL			$24,210,000	$53,853,000	$650,334,000

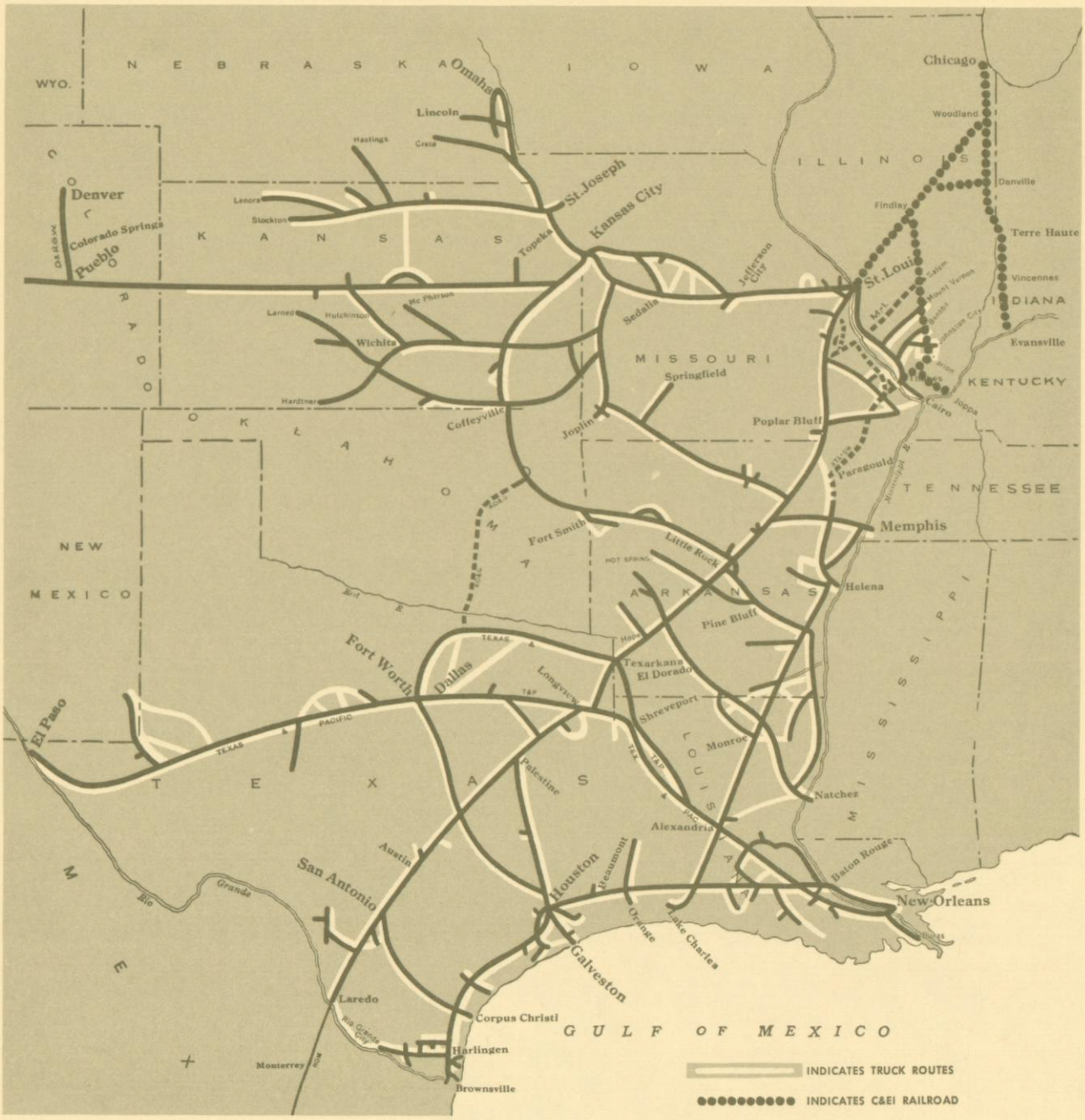
Equipment Obligations Maturing during each of the next five years	1962	1963	1964	1965	1966
	$13,829,000	$13,161,000	$12,795,000	$11,841,000	$10,714,000

(1) Have annual sinking fund requirements.
(2) Contingent.

THE TERRITORY SERVED

The Missouri Pacific System totals approximately 11,500 miles of railroad in 11 midwest and southwestern states. Its lines extend from three Mississippi River gateways: St. Louis, Memphis and New Orleans on the east, to Pueblo, Colo. and El Paso, Texas on the west; and from St. Louis and Omaha on the north, to the Gulf of Mexico on the south.

A network of truck routes operated by Missouri Pacific Freight Transport and Texas & Pacific Motor Transport parallels much of the System's mileage and serves some areas not reached by rails. The truck routes on the map below are shown in white.



MISSOURI
PACIFIC
LINES